

PERAC AUDIT REPORT



Massachusetts Port Authority
Employees' Contributory Retirement System



JAN. 1, 2003 - DEC. 31, 2005



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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October 18, 2006

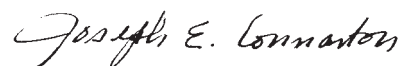
The Public Employee Retirement Administration Commission has completed an examination of the Massachusetts Port Authority Employees' Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2003 to December 31, 2005. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission. There are no significant audit findings to report.

We commend the Massachusetts Port Authority Employees' Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiners James Tivnan and James Ryan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2005	2004	2003
Assets:			
Cash	\$4,213,837	\$10,077,864	\$4,221,844
Short Term Investments	0	0	0
Fixed Income Securities	101,790,820	84,942,609	88,697,153
Equities	28,724,252	26,045,047	9,237,999
Pooled Short Term Funds	0	0	0
Pooled Domestic Equity Funds	111,667,182	108,091,680	118,272,133
Pooled International Equity Funds	69,832,648	64,667,524	49,420,833
Pooled Alternative Investment Funds	6,448,799	4,263,957	2,647,601
Pooled Real Estate Funds	16,749,600	18,901,593	15,754,939
Pooled Domestic Balanced Funds	0	0	0
Pooled International Balanced Funds	0	0	0
Interest Due and Accrued	1,126,574	856,415	945,001
Accounts Receivable	2,774,407	12,879,975	9,714,313
Accounts Payable	(1,437,200)	(12,085,226)	(10,732,728)
Total	<u>\$341,890,918</u>	<u>\$318,641,436</u>	<u>\$288,179,088</u>
Fund Balances:			
Annuity Savings Fund	\$71,566,015	\$65,959,935	\$60,876,599
Annuity Reserve Fund	16,054,687	15,880,107	15,594,141
Pension Fund	6,266,835	12,073,659	19,165,451
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	248,003,381	224,727,734	192,542,897
Total	<u>\$341,890,918</u>	<u>\$318,641,436</u>	<u>\$288,179,088</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2003)	\$61,186,881	\$10,777,581	\$25,582,179	\$0	\$0	\$142,120,970	\$239,667,612
Receipts	7,015,660	398,961	2,120,102	0	1,569,055	50,090,824	61,194,601
Inter Fund Transfers	(6,155,697)	5,859,283	(34,689)	0	0	331,103	(0)
Disbursements	(1,170,244)	(1,441,684)	(8,502,142)	0	(1,569,055)	0	(12,683,125)
Ending Balance (2003)	60,876,599	15,594,141	19,165,451	0	0	192,542,897	288,179,088
Receipts	7,273,708	469,750	2,486,562	0	1,691,312	32,211,486	44,132,818
Inter Fund Transfers	(1,334,614)	1,382,013	(20,750)	0	0	(26,648)	(0)
Disbursements	(855,758)	(1,565,796)	(9,557,604)	0	(1,691,312)	0	(13,670,470)
Ending Balance (2004)	65,959,935	15,880,107	12,073,659	0	0	224,727,734	318,641,436
Receipts	7,714,131	468,567	4,086,253	0	2,112,700	23,169,871	37,551,522
Inter Fund Transfers	(1,511,243)	1,410,678	(5,211)	0	0	105,776	0
Disbursements	(596,808)	(1,704,665)	(9,887,867)	0	(2,112,700)	0	(14,302,041)
Ending Balance (2005)	<u>\$71,566,015</u>	<u>\$16,054,687</u>	<u>\$6,266,835</u>	<u>\$0</u>	<u>\$0</u>	<u>\$248,003,381</u>	<u>\$341,890,918</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
Annuity Savings Fund:			
Members Deductions	\$6,760,993	\$6,200,112	\$5,751,296
Transfers from Other Systems	229,289	535,752	569,702
Member Make Up Payments and Re-deposits	28,646	25,911	36,575
Member Payments from Rollovers	303,582	149,738	78,814
Investment Income Credited to Member Accounts	<u>391,622</u>	<u>362,197</u>	<u>579,273</u>
Sub Total	<u>7,714,131</u>	<u>7,273,708</u>	<u>7,015,660</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>468,567</u>	<u>469,750</u>	<u>398,961</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	356,761	336,676	277,949
Received from Commonwealth for COLA and Survivor Benefits	0	0	0
Pension Fund Appropriation	3,729,492	2,149,886	1,842,153
Sub Total	<u>4,086,253</u>	<u>2,486,562</u>	<u>2,120,102</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	2,112,700	1,691,312	1,569,055
Sub Total	<u>2,112,700</u>	<u>1,691,312</u>	<u>1,569,055</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	1,851	30,236	26,135
Miscellaneous Income	0	0	0
Excess Investment Income	23,168,020	32,181,249	50,064,689
Sub Total	<u>23,169,871</u>	<u>32,211,486</u>	<u>50,090,824</u>
Total Receipts	<u>\$37,551,522</u>	<u>\$44,132,818</u>	<u>\$61,194,601</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2005	2004	2003
Annuity Savings Fund:			
Refunds to Members	\$400,956	\$724,107	\$1,017,445
Transfers to Other Systems	<u>195,853</u>	<u>131,651</u>	<u>152,799</u>
Sub Total	<u>596,808</u>	<u>855,758</u>	<u>1,170,244</u>
Annuity Reserve Fund:			
Annuities Paid	1,651,969	1,565,796	1,385,997
Option B Refunds	<u>52,697</u>	<u>0</u>	<u>55,687</u>
Sub Total	<u>1,704,665</u>	<u>1,565,796</u>	<u>1,441,684</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	7,058,394	6,911,730	6,104,338
Survivorship Payments	918,480	842,543	703,951
Ordinary Disability Payments	96,856	112,086	119,760
Accidental Disability Payments	1,215,685	1,129,071	1,115,814
Termination Allowance Payments	284,286	283,296	199,237
Accidental Death Benefits	52,762	25,804	21,603
Section 101 Benefits	38,014	36,907	35,832
3 (8) (c) Reimbursements to Other Systems	<u>223,389</u>	<u>216,168</u>	<u>201,609</u>
Sub Total	<u>9,887,867</u>	<u>9,557,604</u>	<u>8,502,142</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	15,000	15,000	15,000
Salaries	293,653	281,877	247,516
Legal Expenses	22,117	22,625	37,903
Medical Expenses	418	5,163	151
Travel Expenses	20,208	13,243	11,218
Administrative Expenses	24,220	29,361	109,073
Furniture and Equipment	27,387	27,759	36,868
Management Fees	1,435,704	995,244	886,375
Custodial Fees	92,922	101,496	116,975
Consultant Fees	115,000	109,942	107,975
Service Contracts	66,077	89,602	0
Sub Total	<u>2,112,705</u>	<u>1,691,312</u>	<u>1,569,055</u>
Total Disbursements	<u>\$14,302,045</u>	<u>\$13,670,470</u>	<u>\$12,683,125</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
Investment Income Received From:			
Cash	\$181,442	\$56,820	\$81,908
Short Term Investments	0	0	0
Fixed Income	4,843,204	5,329,062	5,078,182
Equities	215,385	46,829	225,916
Pooled or Mutual Funds	2,635,702	2,338,355	1,891,306
Commission Recapture	0	0	0
Total Investment Income	<u>7,875,733</u>	<u>7,771,066</u>	<u>7,277,312</u>
Plus:			
Realized Gains	4,115,662	3,399,463	3,399,446
Unrealized Gains	36,047,347	38,985,901	51,858,736
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>1,126,574</u>	<u>856,415</u>	<u>945,001</u>
Sub Total	<u>41,289,583</u>	<u>43,241,779</u>	<u>56,203,183</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(714,897)	(560,780)	(471,154)
Realized Loss	(831,923)	(2,760,471)	(2,604,055)
Unrealized Loss	(20,621,173)	(12,042,085)	(6,767,959)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(856,415)</u>	<u>(945,001)</u>	<u>(1,025,349)</u>
Sub Total	<u>(23,024,407)</u>	<u>(16,308,336)</u>	<u>(10,868,518)</u>
Net Investment Income	<u>26,140,909</u>	<u>34,704,508</u>	<u>52,611,978</u>
Income Required:			
Annuity Savings Fund	391,622	362,197	579,273
Annuity Reserve Fund	468,567	469,750	398,961
Military Service Fund	0	0	0
Expense Fund	<u>2,112,700</u>	<u>1,691,312</u>	<u>1,569,055</u>
Total Income Required	<u>2,972,889</u>	<u>2,523,259</u>	<u>2,547,289</u>
Net Investment Income	<u>26,140,909</u>	<u>34,704,508</u>	<u>52,611,978</u>
Less: Total Income Required	<u>2,972,889</u>	<u>2,523,259</u>	<u>2,547,289</u>
Excess Income To The Pension Reserve Fund	<u>\$23,168,020</u>	<u>\$32,181,249</u>	<u>\$50,064,689</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2005			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$4,213,837	1.2%	0-100%
Short Term	0	0.0%	0-100%
Fixed Income	101,790,820	30.0%	0-100%
Equities	28,724,252	8.5%	0-100%
Pooled Short Term Funds	0	0.0%	0-100%
Pooled Domestic Equity Funds	111,667,182	32.9%	0-100%
Pooled International Equity Funds	69,832,648	20.6%	0-100%
Pooled Alternative Investment Funds	6,448,799	1.9%	0-5%
Pooled Real Estate Funds	16,749,600	4.9%	0-10%
Grand Total	<u>\$339,427,138</u>	<u>100.0%</u>	

For the year ending December 31, 2005, the rate of return for the investments of the Massachusetts Port Authority Employees' Retirement System was 8.64%. For the five-year period ending December 31, 2005, the rate of return for the investments of the Massachusetts Port Authority Employees' Retirement System averaged 5.62%. For the twenty-one-year period ending December 31, 2005, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Massachusetts Port Authority Employees' Retirement System was 10.39%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Massachusetts Port Authority Employees' Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

November 9, 1995

16.02(3) The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income for investments provided that the total of such expenses shall not exceed in any one year:

- (a) 1% of the value of the fund for the first \$5 million, and
- (b) 0.5% of the value of the fund in excess of \$5 million.

16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

April 15, 1998 (not otherwise superseded by PERAC letter dated December 14, 2000)

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 5% of the market value of fixed income investments may be invested in bonds with a minimum quality rating below Baa or equivalent as rated by one or more recognized bond-rating services.

20.06(4) Fixed income holdings which are downgraded by one or more recognized rating Services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, however, 5% of the market value of fixed income investments may be invested in bonds with a minimum quality rating below Baa or equivalent.

20.06(10) Private Placement securities falling under the governance of Rule 144A may be purchased up to 5% of the market value of the fixed income portfolio at the time of purchase. These Rule 144A Private Placements shall be considered to be Corporate bonds and, as such, governed by guideline constraints pertaining to corporate bonds including those stated in the Statement of Objectives (Form 18-1).

October 14, 1999

16.08 The MPAERS may invest with Templeton Institutional Funds, Inc., Foreign Equity Series Primary Shares. This commingled fund has the same investment objectives and follows similar strategies as the separately managed mandate with Templeton, the proceeds of which will be liquidated and invested in the fund.

September 20, 2000

16.08 The MPAERS may modify its fixed income investment mandate with Wellington Management Company from Core to Core Plus. The system has had a satisfactory existing relationship with Wellington. The Board believes that the greater flexibility and diversification achieved by allowing opportunistic limited investments in high yield and international fixed income securities will offer long-term benefits in portfolio returns. The portfolio manager, as well as the portfolio benchmark, will not change.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

December 14, 2000

Self imposed restrictions on the Board's percentage of holdings in specific asset classes have been rescinded. Restrictions pertaining to real estate and alternative investments contained in 840 CMR 19.01 remain in effect.

March 25, 2004

16.08 In accordance with PERAC Investment Guideline 99-2, MPAERS is authorized to transfer its international equity mandate with Baring Asset Management from the Standard Active/Passive Non-Lending Fund B to the Full Active/Passive Equity (Lending) Fund G. The funds have the same portfolio management team and both are managed to the MSI-EAFE benchmark. The difference is that the current fund achieves its objective by investing in country-specific index funds while the new fund will also invest in sector-specific index funds.

MPAERS has had a satisfactory relationship with Baring for over four years.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Massachusetts Port Authority Employees' Retirement System member unit employees deemed eligible by the retirement board.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, s. 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$611.28 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Massachusetts Port Authority Employees' Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

April 26, 1993

Regularly employed full-time employees shall receive one year of creditable service for each year of full-time employment as defined for the position. Regularly employed employees who work less than full-time throughout their entire employment with the Massachusetts Port Authority, do not have prior full-time creditable service with another retirement system subject to G.L. c.32, and retire from the Massachusetts Port Authority, shall receive one year of creditable service for each year of such part-time service. If any such employee should transfer to another retirement system, governed by chapter 32 of the General Laws or similar law pursuant to which service with the Authority would be considered creditable service, the amount of creditable service to which the employee shall be entitled should be that part of a year determined by multiplying one year by a fraction in which the numerator is the total hours worked and the denominator is the total of the full-time hours of that position.

March 27, 1996

The Massachusetts Port Authority Retirement System will grant creditable service to members of the Retirement System as follows:

The Board shall grant up to one month of creditable service for any authorized leave of absence or medically related leave, planned or not, including maternity leaves, for which the member received no compensation. Each separate period of continuous absence is subject to the full one-month limit. The Board shall maintain discretion to limit the above stated rule in situations where the consecutive periods of absence without pay are related to the same cause and are separated by relatively short periods of employment. All determinations of creditable service shall be subject to review by the Retirement Board at the time of retirement.

May 29, 1996

ERI Regulations Approval of regulations to implement an Early Retirement Incentive program pursuant to section 49 of chapter 133 of the acts of 1992 as amended by chapter 5 of the acts of 1996.

April 18, 1997

Veterans' Service Buy- Back Regulations

Approval of regulations to implement purchases of veterans' service pursuant to chapter 71 of the acts of 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

October 1, 2002

Creditable Service

In the event that a member claims creditable service pursuant to § 4(2)(c) for temporary or part-time service prior to the time that the member became a member of the system, the member shall submit such documentation as she or he has to verify said service. Service shall be granted equal to the period of service multiplied by a fraction, no greater than 1, the numerator of which is the actual number of hours of service performed in each week divided by the number of hours in a normal work week for the member's position. In the event that the member and/or the board are able to document the fact of such service and the status (full- or part-time) under which the member was employed but there are no records of the member's actual service performed, creditable service shall be given according to the member's status of record unless there is competent evidence that establishes that the actual service was different. For members first employed by the Authority after May 1, 1999, no such creditable service shall be allowed, unless within one year after becoming a member, the member has, pursuant to subsection 4(2)(a) of Chapter 32, filed a detailed statement of the service which he or she is claiming credit.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the treasurer who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Leslie A. Kirwan

Appointed Member:	Michael A. Grieco	Term Expires:	Until a successor is appointed
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Elected Member:	Philip Mallett	Term Expires:	1/10/08
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Elected Member:	David W. Davis	Term Expires:	1/10/08
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Appointed Member:	James P. Costello	Term Expires:	1/11/09
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The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex-officio Member:)	\$3,000,000
Elected Member:)	TRAVELERS INSURANCE COMPANY
Appointed Member:)	
Staff Employee:)	

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting Inc. as of January 1, 2005.

The total actuarial liability was *	<u>293,549,778</u>
System assets as of that date were	<u>304,427,367</u>
The unfunded actuarial liability was	<u>(\$10,877,589)</u>
The ratio of system's assets to total actuarial liability was	103.7%
As of that date the total covered employee payroll was	\$71,030,055

The normal cost for employees on that date was 8.9% of payroll

The normal cost for the employer was 5.3% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.75% per annum

Rate of Salary Increase: 5.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2005

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2005	\$304,427,367	\$293,549,778	(\$10,877,589)	103.7%	\$71,030,055	(-15.3%)
1/1/2004	\$293,743,204	\$282,683,063	(\$11,060,141)	103.9%	\$64,521,876	(-17.1%)
1/1/2003	\$275,617,755	\$261,593,599	(\$14,024,156)	105.4%	\$64,944,593	(-21.6%)
1/1/2002	\$293,120,486	\$294,456,865	\$1,336,379	99.5%	\$63,603,717	2.1%

*Frozen Entry Age, the actuarial liability shown is the frozen initial unfunded amount plus the assets. The funding method does not explicitly calculate an unfunded actuarial accrued liability and therefore it cannot be broken down by active and retired members.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Retirement in Past Years										
Superannuation	54	5	2	3	12	28	19	66	13	17
Ordinary Disability	0	0	0	1	1	2	0	0	0	1
Accidental Disability	1	3	3	4	0	3	2	2	3	3
Total Retirements	55	8	5	8	13	33	21	68	16	21
Total Retirees, Beneficiaries and Survivors	288	294	299	306	312	351	371	435	437	456
Total Active Members	1,076	1,138	1,174	1,191	1,203	1,110	1,107	1,072	1,125	1,153
Pension Payments										
Superannuation	\$2,468,292	\$3,403,456	\$3,449,457	\$3,478,056	\$3,592,206	\$3,782,436	\$4,722,825	\$6,104,338	\$6,911,730	\$7,058,394
Survivor/Beneficiary Payments	255,783	301,550	332,823	390,715	483,514	496,661	598,556	703,951	842,543	918,480
Ordinary Disability	130,556	126,775	132,324	144,224	142,713	170,880	151,428	119,760	112,086	96,856
Accidental Disability	418,661	483,794	574,734	723,471	764,952	966,487	917,651	1,115,814	1,129,071	1,215,685
Other	<u>367,036</u>	<u>365,045</u>	<u>301,335</u>	<u>335,733</u>	<u>345,566</u>	<u>317,230</u>	<u>231,786</u>	<u>458,279</u>	<u>562,174</u>	<u>598,452</u>
Total Payments for Year	<u>\$3,640,328</u>	<u>\$4,680,620</u>	<u>\$4,790,673</u>	<u>\$5,072,199</u>	<u>\$5,328,951</u>	<u>\$5,733,694</u>	<u>\$6,622,246</u>	<u>\$8,502,142</u>	<u>\$9,557,604</u>	<u>\$9,887,867</u>

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